The MORTGAGE BANKER

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Inflation in Mortgages—How Much?

From some of the things we have been hearing from Washington lately, you would think that the whole inflation movement is centered in mortgage loans

ASK any mortgage man—or banker or insurance company official for that matter—what's uppermost in his mind today and the chances are he will say "interest rates—price of money. Where is it headed? What's happening?"

You won't be able to give him a definite answer. You have your opinions but the trend is new. The course developments seems obscure.

In an article in this issue, an official of the New England Mutual Life Insurance Company gives a remarkably clear and reasonable explanation of some phases of this vast development which now seems to be shaping up. This official shared the platform with PRESIDENT JOHN C. THOMPSON at the mid-year meeting of the National Association of Mutual Savings Banks. President Thompson agrees with SECRETARY GEORGE H. PATTERSON and your editor that MR. BADGER made a good presentation of a subject which, at best, is somewhat baffling to almost everyone—particularly when the recent changes have come about so suddenly.

MR. BADGER'S remarks published here represent only a portion of his address. The larger portion reviewed our wartime financing experience, the large demand for capital which exists today, the effect of low interest rates on investing institutions and other phases.

It's no secret that the trend of interest rates for many classes of borrowing is up. That 1½ per cent rate at which corporations with the highest credit standing have been able to secure funds is no longer a sure thing. And when, as and if it goes to, say, 1¾ per cent generally, it will mark the first such change in a dozen years. That's no small increase any way you look at it. In 1933, the rate of prime credit was as high as 4 per cent. It started to slide, and around 1935 hit 1½ per cent where it has remained ever since.

"A boost in the 1½ per cent rate on loans to prime borrowers is long overdue," says the *Wall Street Journal*. "Some bankers criticise themselves for lacking courage to initiate it. Lending to prime borrowers is the most competitive area of banking for this type customer can threaten to take his business across the street. The feeling is growing that this threat is not going to work much longer."

The last issue of MBA's Washington Letter reviewed some of the aspects of this development including the proposals of CHAIRMAN MARRINER S. ECCLES of the Federal Reserve Board—proposals which haven't met with a very favorable reception. Bankers have criticized them vigorously as did ROBERT V. FLEMING, Washington, D. C. banker and former ABA president, before the senate banking committee.

Mr. Fleming based his opposition to the Eccles secondary reserve proposal on the statement that the Federal Advisory Council "just doesn't feel that there is any inflation of bank loans except, possibly, in the field of mortgages—and we're sympathetic in that case to the needs of veterans for places to live."

Sen. Bricker, Ohio, observed that the Banking Committee had just endorsed a measure to add $1 billion* to the insurance power of the Federal Housing Administration.

"It's inflationary, of course," he said "but the housing shortage is a worse situation."

In reply to Eccles, the Federal Advisory Council headed by EDWARD EAGLE BROWN, chairman of the First National Bank of Chicago, said that the cure for high prices is reduced federal spending.

"One control inevitably leads to another," he said. In lieu of credit control legislation, Brown urged congress to follow a non-inflationary federal fiscal policy.

This would include:

1. Reduction of government spending.

2. Reduction of government encouragement of inflationary mortgage lending through GI and FHA loan insurance.

3. Reduction of the national debt by adhering to the policy of high taxes and application of a large budgetary surplus to the reduction of debt. (He

*As members know, Title VI ended up with an authorization of $750,000,000.

emphasized that he spoke only for himself in advocating continued heavy taxes.)

He warned the senators that the national economy must be ready for a downturn at any time.

"This boom is bound to end," he said. "I don't know whether it will be in three, six, 12 or 19 months. The shakedown is inevitable, but not a major depression. It will be a good thing, too," he added.

Mr. Brown agreed with Chairman Eccles on the "inflationary" government housing policy. He was "sorry to say that mortgages exceeding the value of the property" were being bought by banks on the strength of government guarantees.

He went on to say that war veterans and other home hunters "would be better off" living in a "tar shack for a year or two" instead of paying $11,000 for a house that should cost $5,000.

"It is difficult, if not impossible, to persuade banks not to make loans guaranteed by the federal government. Many of these guaranteed loans are in excess of either the cost of the property mortgaged to secure them, or of its reasonable value. They can only result in a loss to the buyer and to the government on its guarantees."

Brown questioned Title VI loans and said the government actually was backing 100 per cent of such projects because appraisals have been too liberal.

He said Congress should return to a system of limiting federal backing of homes to 80 per cent, with a "less liberal" system of appraisals for mortgages.

He said home building might "be slowed down" by tightening up federal aids but this would "take a lot of the pressure" from prices of homes and materials that go into them.

Slowed down is just what Douglas Whitlock of Producers Council predicts. He warned that restriction of mortgage credit would hinder housing construction.

"The government will have to make a choice as to whether it is going to encourage construction of the maximum number of homes for veterans or cut back the volume of home building by curtailing mortgage credit as part of an overall campaign to combat inflationary forces."

In the meantime, the government has changed its bond support policy. It came Christmas Eve when governments had their sharpest break in many years as the Federal Reserve System dropped the levels at which it has been supporting these securities.

Typical of what happened was the 2½ per cent Victory Loan, a key issue in price support operations. It declined from 101 at Tuesday's close to 100 8-32 at the opening Wednesday and closed at that level. A much sharper loss was recorded in the 2½s of 1967-72, which are eligible for bank investments. This issue dropped from 103 7-32 to 101.

The lower-support action was a deliberate one, taken after conferences between Federal Reserve and Treasury authorities.

Monetary authorities emphasized that the changed policy meant no retreat from the Treasury-Reserve program of maintaining a basic 2½ per cent interest rate on long term government securities.

It is believed the Federal Reserve will not allow "in the near or foreseeable future" government bonds to drop below the new support levels.

Whatever the immediate results of this significant change in the mortgage lending field, the next several months should at least produce some interesting developments. But at the moment, we are inclined to go along with Ernest Fisher of Columbia University and former head of ABA's mortgage and real estate finance division, when he says that just about the only certain thing right now in the real estate market is uncertainty.

"Restrictions on mortgage credit probably would result in a decline in real estate prices, and in the volume of construction of new real estate facilities," he said.

"Liberalization of credit terms has been an important contributor to the increase in real estate prices and the costs of building.

"Through the operations of the Servicemen's Readjustment Act, as amended, and the legislation controlling the Federal Housing Administration, most of the risks of these liberal credit arrangements have been assumed by the federal government. Approximately a third of the recorded mortgage transactions in which the amount involved is less than $20,000, during the past year have represented home loans to veterans, guaranteed or insured in part by the Veterans Administration.

"There is probably general agreement that the real estate market is delicately poised. For 13 years it has been rising. From the scanty materials available, one would be justified in characterizing this market as highly unstable.

"In its present delicate position, it would be presumptuous to give the impression that the events which may transpire can be predicted with any assurance. The only certain thing about the real estate market today is uncertainty."

Personnel

SEEKS MORTGAGE POSITION

Cornell graduate. Early business career included mortgage experience, later becoming partner. Later headed another large mortgage firm and was vice president of one of largest local mortgage associations. Liquidated firm and became appraiser and broker. Served World War II. Now with FHA as architectural examiner. Wants position with mortgage house, bank or insurance company. High-grade competent, experienced executive. Write Box 150, Mortgage Bankers Association of America, 111 West Washington st., Chicago 2.

CAPABLE EXECUTIVE AVAILABLE

Young man, college graduate, 33, member Massachusetts bar; 1939-40, attorney in HOLC large eastern city, now with one of large federal agencies. A complete review of man's background of experience cannot be given here but for a life insurance company or mortgage firm—preferably in New England—which can use as an addition to its staff, a man thoroughly familiar with all legal aspects of VA loans, here is an opportunity worth investigating. Write Box 151, Mortgage Bankers Association of America, 111 West Washington St., Chicago 2.

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Is Our Cheap Money Too High?

Has the price we have been paying for a cheap money policy been too high? Yes, if you try to reconcile it with what inflation now costs the American people

By SHERWIN C. BADGER

IF WE are to avoid further monetary expansion, we must look to current savings, rather than to those already accumulated, as the source for new capital funds. But we run into other forces that have resulted from the government's efforts to finance itself as painlessly as possible.

I refer to the effects of the progressive income tax. The idea of setting very high tax rates on upper income brackets and low rates on small incomes fitted in very nicely with the theory that we were over-saving and under-spending. It also has its political appeal and for obvious reasons.

Today we seem to be over-spending, not under-spending, and what we need is new capital investment to permit production to catch up with buying power.

Much of the investment needed today involves the assumption of very considerable risks. Yet our income tax is so rigged that the very people who are in a position to assume risks have been put in a position where so much of their income is taxed away, that it has become almost impossible for them to save anything. Furthermore, for people in the higher brackets, the potential rewards of risk-taking have been made so unattractive by high taxes that it is doubtful how much they would be willing to risk even if they could accumulate current savings.

One does not have to look very far to see what is going on. In spite of all the dollars in the country, *there is a growing shortage of dollars available for investment in the forms which business needs.* The first definite signs of this shortage appeared in September, 1946 when the stock market broke so sharply. I can see no other logical explanation of that market break and of the inability of the market since then to rise to anything approaching the usual relationship to earnings and dividends. While I cannot prove it statistically, it seems to me a reasonable thesis that during the past couple of years new issues of common stocks have been coming into the marketplace at a faster rate than new equity funds have been accumulated.

Within recent months, we have seen the same thing take place in the preferred stock market. The supply of new preferred issues has exceeded the supply of funds available for this type of investment, consequently prices have dropped and yields have risen, in many cases quite dramatically.

To a lesser degree, but nonetheless unmistakably, the same trend has recently been evident in the corporate and municipal bond markets. The Bell Telephone system, for example, is engaged in a multi-billion dollar expansion and improvement program. Ordinarily a good part of this would have been financed with common stocks. Instead, and by force of circumstances, it has been financed almost entirely with straight and convertible bonds up to a point where institutional buyers have Telephone bonds coming out of their ears. Is it any wonder that their prices have fallen and their yields have risen?

Mr. Badger regrets "the temporary passing" of conventional mortgage lending which "for over a century has proved itself a desirable lodgment for money for long-term investments." That observation is an interesting commentary of today when read alongside the brick bats which guaranteed loans are having tossed their way—and from such diverse people as the chairman of the Federal Reserve Board, the chairman of the President's Federal Advisory Council, Senator Taft and various and sundry bankers.

Mr. Badger spoke at the midyear meeting of the National Association of Mutual Savings Banks. He is second vice president of the New England Mutual Life Insurance Company and was formerly in newspaper work.

We in the life insurance business used to wonder, not so many years ago, where we could possibly find outlets for our roughly $4 billions of annual new investment funds. But these $4 billions, when loaned to industry, will now purchase only about half as many machines or build half as many new factories as they would pre-war.

Our $4 billion figure, which used to look so formidable, has become quite modest when it is compared to the requirements of industry and real estate — the requirements, I again stress, which under present conditions can be financed only by relying very heavily on debt instruments and to only a minor degree on equity capital.

It seems to me that with the continuation of inflation and the widening yield spread between government and corporate bonds, we are confronted with a condition which may call for bold decisions.

Official policy is still one of protecting the interest rate on government securities, the emphasis having shifted merely from a rigid interest curve on all maturities, to the rate on long-term issues. This has deprived the Federal Reserve of the power to initiate monetary policy and has put control in the hands of commercial banks. *The result is continued inflation of the money supply and continued upward pressure on prices, the cost of living and wages.*

The great demand for new capital, in the form of debt, is raising interest rates on non-government securities at a time when the yield on governments is pegged at a little below 2½ per cent. Now it is obvious that at some point the yield spread between government bonds and other securities may become wide enough to cause some investors to sell their governments in order to purchase other securities.

This will drive down the price of governments and call for official sup-

port of the market. At some point along the line such support could easily entail inflationary credit expansion which would further aggravate the whole monetary situation, possibly seriously.

Governments Below Par?

What should be done to resolve the dilemma? What steps might be taken to restore some measure of credit control to the Federal Reserve, where it belongs by law? Very slowly, and reluctantly, the Federal, with the approval of the Treasury, has made some moves. But to my mind, at least, the very slight changes that have been permitted in the government short-term rates, when contrasted with the vigor of the inflationary rise in prices and wages, have been akin to sending a very little boy too late on a man's errand. To date these steps have not visibly hindered the inflationary march.

It seems to me that the time has come to reconsider most seriously what price we are willing to pay for easy money. If the interest rate on the whole national debt were increased by 25 per cent, it would add some $1¼ billions to the carrying charges, and much of this would be recovered in taxes.

Compared to this figure, just consider what inflation is costing the American people. Expenditures for personal consumption are now running at the rate of $160 billions a year. If the cost of living is to rise another 10 per cent in 1948 as so many predict, this will increase our living costs by $16 billions. But of course, that is not the worst part—the real damage is that inflation might cause so many dislocations as to make a depression inevitable.

It is often assumed that if long-term government bonds were allowed to go below par, a catastrophe would ensue. It is said that government bonds would be dumped by the billions and that the solvency of our institutions would be threatened.

I do not believe it. If investors are tempted to sell some of their government bonds in order to buy higher yielding corporate bonds I think they will be much less tempted to do so if the prices of governments are allowed to seek their own levels than if they are artificially supported above parity.

The idea that there is something sacred about a price of parity for Treasury 2½'s is psychologically the greatest inducement I can think of for trying to sell before an alleged disastrous decline below par takes place.

Then consider the distribution of ownership of the national debt. The solvency of our commercial banks will not be affected if long-term 2½'s go below par. Less than 8 per cent of their holdings have maturities in excess of 10 years. Certainly a decline would not disturb savings banks or life insurance companies or government agencies. We amortize high grade bonds, and we bought our governments with the idea that we would probably hold them until maturity, and not with the idea that we would try to outsmart the market.

Dam the Inflation Tide

As for non-marketable issues, I seriously question whether many owners of savings bonds are either such timid or speculative holders that they would want to cash their bonds. If they have so little confidence in the financial integrity of their government as to believe in it only as long as interest rates are manipulated, we might just as well find it out now when we can stand it, as wait to some later date which might be less propitious.

I am not advocating that we reappraise the social cost of our low interest rate policy because I want rates to go up. So long as the interest rate measures the point where the demand for money meets the supply, and so long as neither supply nor demand is manipulated in order to peg rates, I for one am not particularly concerned whether interest rates rise or fall. The reason I advocate reappraisal of the present rate policy is because I believe it is the only way to unlock the door and give the Federal Reserve access to the tools needed to dam off the present inflationary tide.

There is probably no group of people who have more at stake in prospective monetary and interest rate decisions than the 80,000,000 odd people served by the savings banks and the life insurance companies. These people have entrusted to our care approximately $70,000,000,000. This is more than a great sum of money. It represents unusually precious money for which these people have toiled and sacrificed in order to build up some measure of protection for themselves and families as free and self-dependent citizens.

More Socialized Loans?

It is to be realized that we are working on shorter margins than ever before, a fact which means that even a modest decline in real estate values and consumer incomes can produce a waive of defaults and foreclosures.

It would seem to me that there are several possible developments depending entirely upon our economic conditions over the months and years ahead. With a continued high level of business activity, the government may be sensitive and critical of the caution and conservatism of the lending agencies if these agencies tighten mortgage credit, which they now appear to be doing, and adopt a "go slow" policy.

The government, either national, state or local, may venture into socialized housing, at the taxpayer's cost, under legislation similar to the suggested Wagner-Ellender-Taft Bill considered by the last two sessions of the Congress, or under the guise of slum clearance, as our state and local authorities are now attempting.

The government may disregard the advice of the lending agencies in another way. There is evidence of pressure to force the further extension of credit in the housing field. Any such forced extension of credit may result in an increase of the direct or indirect activities of the government in the mortgage lending field. This would carry us into unchartered seas and would constitute a threat to our present system of mortgage lending.

If, on the other hand, trouble should occur in the form of a drop in consumer purchasing power, with a consequent decline in real estate values, the government may carry through a program involving activities incorporated within the original Home Owners Loan Corporation enactment. I have no doubt that greater leniency and stronger effort to help the borrower work out his problem would be a fundamental philosophy in the activi-

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WHAT'S NEW IN MBA

1948 MBA Clinics and Educational Courses Directed at Practical Every-Day Problems

THE new year will usher in the most ambitious program of meetings MBA has ever sponsored and it looks as though it should be one of the best.

Our usual annual convention, three regional clinics and two educational courses comprise a series of six. It is possible that some members will be able to catch all of them because appointments and business engagements in various parts of the country may work out that way. But that isn't too likely, so our suggestion is that the annual convention should be first on your list and then at least one regional clinic. It should be said right here, however, that you can—with every prospect of profit—attend all three clinics and if you can do so, we don't think you'll regret it.

As for the educational courses, attendance is limited but we urge you to give the most serious consideration to them. They are most worthwhile and accomplish many objectives not attained in our other meetings. For a more detailed review of the 1948 program of meetings, we refer you to the notes below:

CLINICS: On this page you will find a calendar of events. Note the dates and geographical distribution by cities. We have made it possible for the greatest number of members to attend at least one Clinic.

And as for the program, we have never approached a series of meetings with greater confidence that we will offer members exactly what they want. This was no accident. Secretary George H. Patterson has been corresponding with around 200 members for the past two months asking for subjects they want to hear covered. After the initial replies, the subjects most in demand were properly tabulated and grouped together for clinic presentation. Then another survey was made to further refine and screen the views received.

From all this has emerged some definite and conclusive ideas as to what members want to hear talked over. The final program isn't ready yet but based on what we know now it seems members want half-day sessions on these four subjects:

First, interest rates, trend in the money market, prospects for higher-cost money, effect on the mortgage field, drop in corporate and other bond prices—all adding up to the subject which you hear all types of lenders discussing most today.

Second, G.I. and FHA—new regulations, procedures, changes, possible developments, etc. Some members think we keep up to the minute on these two phases through our publications, letters and services and the official notices from the agencies themselves; but there are enough members who don't agree, so again we are adding FHA and GI to our program.

Third, ways and means of getting a bigger volume of loans, suggestions for acquisition, new ideas that have paid out, ways to cut costs, etc.

Fourth, ideas on servicing, how it can be made more profitable, short cuts to more profits, etc.

The above is tentative but seems to be the general plan on which the Clinic programs will be based. It is anticipated that a standard program, reflecting the majority view, will be devised and carried through all three meetings—with different personnel at each of course. A finished program for the first Clinic will be in members' hands shortly.

EDUCATIONAL COURSES: The first is scheduled for New York University, January 27 to 29. In some respects, this is the "graduate school" of mortgage banking. Attendance is limited and you have our covering letter detailing the subjects to be discussed and the faculty. If you haven't made application to attend, do so at once.

The second educational course will be at Northwestern University in Chicago, June 21 to 25. Frank J. McCabe, director of education and research, has announced the general plans and has received a most favorable response. More than 200 applications have been received from around 150 institutions. Not all of these can be accepted. For instance, a company asking for 3 or 4 registrations will have to accept a smaller number so that we can accommodate more member firms wishing to send only one registrant. So, even though we have applications for more than the total which can be accepted, there is still time to send in your own application because it may be accepted.

ANNUAL CONVENTION: It's a little early to tell members much about this meeting except to say that some lessons were learned in Cleveland last

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MBA Calendar of 1948 Events

Jan. 27-29—New York, Educational Course, sponsored by MBA and New York University Graduate School.

Feb. 25—Chicago, Drake Hotel, Winter meeting of Board of Governors.

Feb. 26-27—Chicago, Drake Hotel, First 1948 Regional Mortgage Clinic.

March 18-19—Oklahoma City, Hotel Skirvin, Second Regional Mortgage Clinic.

April 5-6—New York, Hotel Commodore, Third Regional Mortgage Clinic.

May—(Spring Board of Governors meeting to be announced).

June 21-25—Chicago, Educational Course, Northwestern University, Chicago Campus.

People and Events

Frederick P. Champ, MBA past president, Logan, Utah, and L. Douglas Meredith, member of the board, Montpelier, Vt., are members of the Construction and Civic Development department of the U. S. Chamber this year. . . .

Other associations: St. Louis Mortgage Bankers Association members recently heard Joseph M. Darst, newly appointed director of FHA, speak on that agency's problems. . . . Cincinnati Mortgage Bankers Association members met to hear reports of MBA's Cleveland Convention. . . . Atlanta Mortgage Bankers Association members heard committee appointments and the nominating report. . . . Members of the Detroit Mortgage Bankers Association met to hear Fred Dorman, prominent insurance agent, speak on "General Hazard Insurance and Its Effect on the Mortgagee." The Detroit annual meeting was December 11 with Fred T. Greene, president, Federal Home Loan Bank, Indianapolis, the principal speaker. President John C. Thompson and Samuel E. Neel, Washington counsel, addressed the New Jersey Mortgage Bankers Association meeting in November.

New Officers of the Oklahoma Mortgage Association will be installed at the January meeting in Oklahoma City.

Officers of the Mississippi Mortgage Bankers Association this year are J. C. McGee, president, T. P. Watkins, first vice president, W. P. Bridges, second vice president, H. C. Bailey, secretary and Louis W. Cotton, treasurer. . . . Louis K. Boysen, one of MBA's honorary life members, has retired from the RFC, with which he has been associated in the Chicago office.

Organization of the Mortgage Bankers Association of Greater Little Rock, with an initial membership of 25 representatives of life insurance companies, banks, savings and loan associations, mortgage companies and loan correspondents, is announced.

Purposes of the new association were described as the co-ordinated study of problems confronting the mortgage loan business today; improved relationship between lenders, government agencies, and investors; and provision of better service for clients in a constantly changing field of activity.

Plans are under way to expand the original membership of the organization to include associate members in allied businesses, such as architects, builders, sub-division developers, and building material firms. The association also expects to increase its activities to a state-wide scale in the near future.

Hubert T. Watkins was elected president. Other officers are Jack C. East, vice president; R. E. Weaver, secretary, and J. Allen Greeson, treasurer.

Members of the board include: W. S. Daniel, James B. Finley, J. Gardner Lile, James L. Lucas and Virgil T. Williams.

The group will hold weekly luncheon-meetings. Members of the program committee are James M. East, Abe Rosen and William E. Terry.

"We hope to assist in solving existing problems to a point that will make home ownership easier," Mr. Watkins said. "We are particularly interested in working out a means of expediting and streamlining home financing for veterans."

Mortgage Bankers Association of Greater Miami sponsored a joint meeting with the local home builders group to hear M. R. Massey, assistant FHA commissioner, speak on the 1948 housing outlook.

The annual convention of the Iowa Mortgage Bankers Association will be held January 19 and 20 at Hotel Martin, Sioux City. The Sioux City Mortgage Bankers Association will be host. Committees arranging the meeting are:

Program: E. R. Haley, Chairman, O. M. Garrett, Harvey Handford, Earl Linn and Robert Turner.

Nominating: Fred Quiner, Chairman, Clyde Roe and W. H. Williams.

Resolution: W. W. Beal, Chairman, V. C. Peterson and Joe Grant.

Publicity: L. M. Fryer, Chairman and M. S. Olson.

The Baltimore Mortgage Bankers Association has devised a new plan of operation which, it is believed, will streamline procedure and make for more efficient operation. A "steering" committee has been set up which will meet one hour before regular meetings to organize the work to be acted upon at the session. This committee will also assist members in working out individual problems connected with their business and will shortly consider setting up one-day clinics for local mortgage men.

When the Miami International Home Show was held recently, the Mortgage Bankers Association of Greater Miami took a booth. Members took turns manning it during the show's week run. FHA and VA literature and an especially published pamphlet detailing the services of Association members were distributed. W. S. Brenza, secretary and treasurer, said that great interest was shown in the display by those attending the show. Anyway you look at it, this seems an excellent promotion for a local association. The Louisiana Association is doing the same thing in March at the Shreveport Home Show, Dan Scarborough III tells us.

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JANUARY, 1948

If Lenders Fail, New Public Housing Will Make Past Program Seem Like "Breeze"

By PRESIDENT JOHN C. THOMPSON

THERE are no longer the many acceptable reasons why homes cannot be built at prices which veterans and others in need of moderately priced houses can afford, nor are there any acceptable reasons why such housing cannot be privately financed. Too many have expended their energies in opposing the enactment of federal legislation such as the Taft - Ellender - Wagner Bill and too many are now assembling forces to oppose substantially similar bills which may be introduced in the next Congress. Instead of devoting our efforts simply to opposing such legislation, we should be directing our energies and devoting our resources to eliminating the need for such legislation. Building and financing homes which each class of our citizens can afford is the only effective means of making such legislation unnecessary.

Pres. Thompson

It is true that marked progress has been made since the end of the war in constructing new dwelling units. Bureau of Labor statistics show that 615,000 dwelling units were put under construction during the first nine months of 1947 which represents over 89,000 more units than in the same period of 1946. Estimates based upon reports from Real Estate Boards of 299 communities indicate that a normal housing supply should be achieved within a year in many of our cities if no more federal controls or restrictions are imposed which would delay construction.

Reports from some cities indicate an adequate housing supply will require an additional three to five years unless construction costs are reduced. The shortage of residential units is still almost universal, but construction to date is making recognizable inroads into the shortage according to the survey. Premiums for immediate possession have disappeared from a great majority of the reporting cities and new houses are no longer in such demand that they are purchased before completion, the survey concludes.

But despite those facts, we have hardly more than scratched the surface. Estimates on the probable potential of home loans for veterans between this year and 1955 suggest that an annual average of about 530,000 home loans for the next $8\frac{1}{2}$ years will be needed to finance the purchase of homes by veterans. To date about 800,000 veterans' loans have been approved. Employing this method of estimating, the ultimate number of G-I loans may well reach $5\frac{1}{2}$ to 6 millions.

> *This is a portion on an address which* PRESIDENT THOMPSON *delivered before members of the National Association of Mutual Savings Banks at their mid-year meeting in New York.*

If such loans average \$5,000, it means a dollar volume of from \$25 to \$30 billions. To provide that money is an unmistakable challenge to private industry; now is the acceptable time to meet that challenge.

But how? By encouraging and stimulating construction by providing the monies to finance it. If we fail to do so, as I have previously suggested, it will be done while we are trying to find excuses for not doing what we should now be doing and while we are trying to determine whether the future portends a continued boom, a depression or an era of adjustment.

Most Americans want private industry to erect all of the needed future housing but there is an ever growing restiveness under the reputed failure of private industry to ameliorate housing conditions. If private industry does not now undertake, and within the next few years complete, the required housing, it appears inevitable that a public housing program will result which will make the past and current program seem as a gentle breeze compared to the proverbial big wind.

All mortgage lenders can contribute immeasurably to the solution of the most serious problem ever before the housing industry. But to do so, mortgage lenders with almost countless millions of dollars at their disposal, must raise their sights to proper heights in appraising the security offered for mortgage loans. Too, the present and the future must be viewed realistically and archaic ideas as to costs of construction and values of properties must be discarded—mortgage terms too must be revised to meet current demands.

Am I suggesting that we discard the proven and sound principles of mortgage investing? Emphatically, no. I am not suggesting that any lender of mortgage monies should carelessly or irresponsibly make loans or that sound underwriting standards be relaxed. But I do most earnestly urge that all broaden their horizons and make loans which will not only contribute immeasurably to the maintenance of our free economy, but at the same time provide security of principal and an acceptable return of interest.

One way of so doing is to actively participate in the veterans home loan program which was not only designed

to solve a national housing problem through the facilities of our current free enterprise system, but to solve it by meeting the financing needs of veterans without risking the security of monies which you as savings bankers hold as trustees for millions of depositors.

The veterans' home loan program is the third major governmental plan to provide homes and the needed financing through our present form of economy. It is too early to say that the program has been generally satisfactory or unsatisfactory. As in the past, when legislation has been enacted to encourage and sustain, through mortgage insuring, home building, many are critical and predict chaos. Many others have adopted too sanguine an attitude about the benefits and success of the plan. There is, of course, the proper attitude on the part of most mortgage lenders who wisely believe, in the first place, that all veterans, for many reasons, will not want to buy homes. They believe, too, that some small percentage of veterans, for principally economic reasons, should not now be encouraged and financed to buy homes.

CHEAP MONEY TOO HIGH?

(Continued from page 3)

ties of our government. The end result, however, will and must conform to the traditional pattern of liquidation.

In conclusion, may I record the fact that lending agencies have enjoyed the longest period of sustained profitable lending activity ever experienced in our economy. If the operation of federally insured credit can be rationalized with the basic economic conditions prevailing from time to time in the real estate market, all, the borrower and lender alike, and our national economy as well, will have reaped a worthwhile advantage.

There is a danger, however, that the operation of housing credit, operated by the government, may become an institutional activity motivated by political expediency and used without reference to economic stability. Such a venture might readily carry us into a period during which we will be totally divorced from our present affection for federally insured mortgages.

Wallace True 1948 Convention Head

Wallace W. True, vice president, The Lincoln Savings Bank of Brooklyn, has been named convention chairman for MBA's 1948 annual meeting. Earl Linn, vice president, The Weitz Investment & Realty Co., Des Moines, is chairman of the clinic committee which includes Thomas E. Colleton, president, Clinton Title and Mortgage Guaranty Company, Newark, N. J.; Edgar N. Greenebaum, president, Greenebaum Investment Company, Chicago; and J. Wilson Swan, vice president, Braniff Investment Company, Oklahoma City.

W. W. True

Norman H. Nelson, vice president, The Minnesota Mutual Life Insurance Company, St. Paul, and Robert E. Goldsby, president, Jersey Mortgage Company, Elizabeth, N. J., are co-chairmen of the educational committee. They will work in association with Frank J. McCabe, Jr., MBA director of education and research. Other members of the educational committee are W. R. Bryant, assistant vice president, American Trust Company, San Francisco; W. J. Church, president, West Hudson National Bank, Harrison, N. J.; W. L. Leighly, vice president, Dovenmuehle, Inc., Chicago; Thomas E. Lovejoy, Jr., first vice president, The Manhattan Life Insurance Company, New York; Robert H. Pease, vice president, Draper and Kramer, Inc., Chicago; and Thomas J. Purcell, vice president, Hogan & Farwell, Inc.

Conventional mortgage lending, with integrity on the part of the borrower, and honesty, prudence and intelligence on the part of the lender, has, over the century, proved itself to be a desirable lodgment for money for long-term investments. Its temporary passing is to be regretted.

YOUR 1947 YEAR BOOK IS ON THE PRESS AND WILL BE MAILED SOON. WATCH FOR IT.

MBA 1948 PROGRAM

(Continued from page 5)

year as to what is most appreciated during these times; you will likely see more of the same.

One project, however, is well under way—MBA's 9th annual Exhibit of Building, Industry and Services. Presentations are already being made on this; and one service which you, as a member, can render in this regard is pass along to us the names of companies which you think would make worthwhile participants in this show.

For instance, what is your opinion about business machine companies exhibiting? Do you want to see more of them and would you appreciate more comprehensive demonstrations by those which do exhibit? Any ideas you have along these lines will be helpful. We will be glad to send any member who requests a supply of our prospectus on this event.

HOTEL RESERVATIONS: As in the past we are arranging hotel accommodations for all 1948 events. Watch for our letters covering this and other announcements about the meetings.

ISSUES HANDBOOK FOR COMMUNITY BUILDERS

Something new in building and development literature has just been issued by the Urban Land Institute. It is the Community Builders Handbook, a guide to building neighborhoods of sustained value written by 27 members of the ULI Community Builders Council. It lists the ABC's of sound residential and shopping center development, based on the successful experience of its authors. An examination of the announcement indicates that it should be of considerable value to mortgage lenders.

One value of the Handbook lies in the fact that for the first time the men who have built the most successful neighborhoods in the country have set down a record of how it should be done. Since its recommendations have all stood the test of successful experience, it should do much to determine the pattern of future development in this country.

Copies may be ordered from the Urban Land Institute, 1737 K Street, N. W., Washington 6, D. C., at $12 a copy.

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